CANNELL &CO.

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"I'VE HAD A LOT OF WORRIES IN MY LIFE, MOST OF WHICH NEVER HAPPENED."
— Mark Twain

Dear clients,

When we wrote to you a year ago, anxiety was the predominant investor emotion. While we were not totally immune to the concerns of the market, we were reassured by Mark Twain's self- reflective insight.

The laundry list of worries in December 2018 included Brexit, North Korea, China, Fed policy, hyper-partisanship, an aging bull market, slowing growth, Middle East tensions and the apparent plateauing of earnings. Yet as 2019 ended, the S&P 500 Index finished up 31.5% for the year and over 9% for the fourth quarter. Clearly the impact of those uncertainties was not as expected. We are extremely gratified that our disciplined investment process allowed our clients to enjoy a stellar year.

The 2019 market rally appears to have benefited from the Federal Reserve's dovish positioning in the face of minimal inflation; continued strong consumer demand buttressed by historically low unemployment; and robust corporate consolidation fueled by low interest rates and relatively attractive valuations. Our clients benefitted handsomely from this combination of influences as our core portfolio holdings reacted well to these various factors.

With the decade drawing to a close (yes, technically this won't happen for one more year), it is instructive to look back with a longer-term perspective. If one were to place themselves in the post global financial crisis environment of 2010, there were dire warnings of "dead cat bounces", expectations of the debasement of the dollar, pronouncements about deflation and inflation, and widespread forecasts of a Eurozone collapse. Yet the 2010s proved to be the fifth best decade for the S&P 500 Index since the 1880s. It is a reminder that investing often turns out to be most profitable when sentiment is negative.

So, what might 2020 and beyond have in store? As many of you know, a crystal ball sits on the conference room table in our office. We are humble enough to know that our market predictions are no better than those one might see gazing into that orb. Therefore, we will continue to use fundamental research to identify investment opportunities. Nevertheless, it is important to discuss some of our beliefs about the world through which we are navigating.

Macro factors appear to be modestly positive. With the global economy stabilizing, the US economy continuing to grow, albeit slowly, and interest rates remaining low, it

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is not unreasonable to expect corporate earnings to improve in 2020. Combine that with our expectation for companies with strong cash flows to maintain stock buybacks and grow their dividends, the environment appears to be favorable for equities.

The fourth quarter equity rally – not to mention the year-long and decade-long bull markets – has apparently not impacted investors' negative sentiment toward this asset class. Record cash flows continue to exit stocks and pour into bonds and cash. This seems to be a very different environment from that of 1999, when the dot com bubble made investors irrationally exuberant about stocks, or 2007, when the housing bubble supported the outlook for equities. Again, negative investor attitudes often are a positive indicator.

This sentiment toward stocks is curious to us as interest rates are negative when factoring in inflation. For those of us who need our savings to grow over time so that inflation doesn't destroy our standard of living, cash or bonds are no remedy. A well-considered allocation to equities is a critical component to achieve positive long-term inflation adjusted returns. Eschewing stocks for bonds or cash may be the investing equivalent of cutting one's nose off to spite their face. However, there are plenty of crosscurrents to consider. These include an evolving trade policy, ongoing diplomatic confrontations and a looming presidential election. While we don't expect these factors to impact the earnings of our investments over the longer-term, they can certainly impact near-term market volatility and play a role in investors' decision making.

On balance, this combination of forces leaves us optimistic that active stock selection will continue to be rewarding. Experience has taught us that vigilance is a key component to being successful investors. We will continue to make investment decisions based on evaluating company fundamentals, while managing individual portfolios with a fiduciary's eye toward each client's best interests.

2019 was a significant year for Peter B. Cannell & Co., Inc. At the start of the year we announced our return to our roots as a private firm. Nine months into our partnership, we couldn't be more pleased with that decision. As we said in our earlier letter, we believe that this structure would not only provide you with the expertise and service that you expect, but also permit us to add additional talent and capabilities. One of those new capabilities is sophisticated planning software that can help clients to evaluate major financial decisions. We look forward to incorporating this new planning tool into the advice we will provide you.

In closing, we would like to thank you for your continued trust. We come into the office every day understanding that we have a critical responsibility to you. Our commitment is unwavering.

Wishing you a Happy and Healthy 2020.

The Partners of CANNELL & CO.